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SIPDIS

STATE FOR EB/IFD/OMA:L.GALLAGHER
TREASURY FOR OASIA/MDM:J. FRANCO

E.O. 12958: N/A

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SUBJECT: TRANSPARENCY OF BUDGET/MILITARY SPENDING

REF: STATE 239929

¶1. Summary. This message is in response to reftel and answers are keyed to those questions. The GDRC is a post-conflict transitional government composed of all parties to the Global and Inclusive Accord signed in Sun City in 2002. The focus of the government is to finish the transition with elections slated to take place in June 2005. The IMF is working with the GDRC to improve the accounting and budget process. Over the past three years they have made considerable progress in budget and expenditure procedures through the "expense chain" that accounts for disbursements and codes them to budget items. End summary.

¶2. (Part A) General Overview of Auditing Procedures

- (1) Military expenditures are audited internally.
- (2) Military finance officers conduct the audits.
- (3) Audits are presented to the Minister of Defense and the President.
- (4) Both the Minister of Defense and the President hold the rank of Major General.
- (5) Audits are not required on an annual basis.
- (6) There has been no specific legislation passed by the transitional government but, as noted above, internal audits are conducted as a matter of policy.

The GDRC is transitional in nature, and is working to resolve years of internal and external conflicts. The government's lack of technical capacity is being addressed in cooperation with the IMF. Parliament is increasing its oversight of the budgetary process, and has authority to review audits.

There is a lack of breakdown in salary payments to the military due to the absence of a centralized disbursement structure. The international community is working with the GDRC to integrate former rebel groups into the armed forces, demobilize large numbers of them, and conduct a census to precisely budget for salary and related expenses. Parallel to this, the Central Bank is working to set up offices throughout the country and to set up an electronic payroll system for the civil service as well as military. Most deficiencies in the present system are a result of capacity constraints. The IMF reported on November 23 at the conclusion of its November 9-23 mission that the GDRC has made very good progress on tracking expenditures, including with the military.

¶3. (Part B) The Military Budget and On-budget and Off-budget Revenues and Expenses

- (1) The national police are under the Minister of the Interior, not the Minister of Defense. Other security services are under the Office of the President.
- (2) Both the GDRC and the IMF noted military over-expenditure in 2004; this was a direct result of unanticipated expenses incurred in June 2004 when the military had to respond to the seizure of Bukavu (the capital of South Kivu) by a renegade militia group. Post is not aware of significant off-budget military receipts.

¶4. (Part C) The Military Component of the National Budget

- (1) With pressure from donors under the HIPC program and IMF's Poverty Reduction Strategy, the GDRC has made progress in increasing health and education spending. Military expenditures are still larger. Military spending is estimated to be 15 percent of the budget. The GDRC is unlikely to spend significantly more on health and education until conflicts are resolved and the transition is completed.
- (2) The budget debate begins in the Council of Ministers where 36 different Ministries vie for funding with four vice-presidents and the President's office. As half the budget is financed by external sources, donors also weigh in on the debate. The draft budget is then debated by the two chambers of the Parliament. These actors were all appointed under the Global Accord; none has a majority in any body, so debate is lively.

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